

THE ADMINISTRATION OF DEMEROL OR MORPHINE TO “CURE” A CANCER OR BROKEN LEG IS NOT PRACTICING MEDICINE, ITS QUACKERY OF THE WORST KIND, AS IT DELAYS TREATMENT.

To:

Senator Roberts  
Senator Moran  
Representative Lynn Jenkins  
Representative Mike Pompeo

From:

Dr. George McDuffee

Date:

Monday 18 February 2013

Subject:

Mortgage refinance myths, legends, folk lore, and “free money”

Ref:

<http://news.yahoo.com/mortgage-bill-faces-tough-road-congress-124330053.html>

From the media reports it appears Washington is continuing to attempt to treat socio-economic symptoms with anodynes and ameliorative actions, rather than identifying the root causes and eliminating these.

Operationally, nothing has been accomplished except to slightly reduce the impact and effects of the latest economic spasm [2007-2008] on individuals and specific groups by “sharing the misery” out over as many people as possible, for example by reducing interest rates thus depriving savers and those on fixed incomes of their (justified) capital returns. The national government by itself has expended in excess of one trillion dollars per year for the last 5 years in a futile attempt to treat the symptoms, and losses resulting from unfunded mandates and wealth redistribution are even greater.

For definitive and effective action it is suggested the current economic/cultural malaise and angst be subdivided into specific economic sectors and areas, and critically analyzed for:

- A) What went wrong, concentrating on systemic factors, modified business customs/environment and changes in the national social structure/culture/demographics, \*NOT\* specific organizations and individuals?
- B) How is this to be prevented from reoccurring? It is intolerable for a rational society to continue to accept periodic economic/fiscal panics and crashes, which erase years of economic progress and asset creation/accumulation by the large majority, as the “will of god (or Mr. Market),” as were the Black Death pandemics of the Middle Ages.

The model which should be followed is called “Action Research,” rather than the traditional Washington “blame game.”

[http://en.wikipedia.org/wiki/Action\\_research](http://en.wikipedia.org/wiki/Action_research)

[http://www.lab.brown.edu/pubs/themes\\_ed/act\\_research.pdf](http://www.lab.brown.edu/pubs/themes_ed/act_research.pdf)

While these common sense requirements will indeed unfortunately restrict home ownership, but as the debacle resulting from sub-prime lending clearly shows, allowing individuals that do not meet at least these minimum requirements to obtain mortgages is “killing them with kindness” by saddling them with unpayable debts, as shown by their excessive default/foreclosure rates. It should be noted that the individuals are free to borrow where every they like, and anyone is free to lend as they like, on what ever terms are mutually agreeable [e.g. so-called “hard money” loans [http://en.wikipedia.org/wiki/Hard\\_money\\_loan](http://en.wikipedia.org/wiki/Hard_money_loan) ], but loans not meeting the suggested criteria cannot be “bundled” into CDOs traded interstate or internationally, or sold to any Federal agency or GSE [Government Sponsored Enterprise]

A few specific action items while waiting for in depth critical analysis, some specific to residential real estate, and some applicable to the entire financial structure are:

- 1 The cost of capital, i.e. interest rates, is a, if not **THE**, basic and fundamental factor in the operation of a free market economy. To be sure, there are exceptional (and rare) times when the market cannot be relied on to set equitable or rationally establish interest rates, for example during a financial panic, but the Federal Reserve Bank has become a loose cannon, and a “law unto itself,” through the continual imposition of their ZIRP or Zero Interest Rate Policy [ [http://en.wikipedia.org/wiki/Zero\\_interest\\_rate\\_policy](http://en.wikipedia.org/wiki/Zero_interest_rate_policy) ]. Indeed as the interest rate is below the rate of inflation, operationally they are lending at negative rates, which is intolerable if continued over any significant period of time, if only for the mal-allocation of capital into non/counter productive activities, asset bubble creation, and encouragement of dangerous financial activities such as the “carry trade,” [ [http://en.wikipedia.org/wiki/Carry\\_investment](http://en.wikipedia.org/wiki/Carry_investment) ], which not only killed the U.S. S&L sector [ <http://informationarbitrage.com/post/698381752/mind-the-gap-and-the-1980s-s-l-crisis-financial> ], but is now *destabilizing the economies of many of our trading partners*, as the “free” FRB money floods and overheats their economies, rather than being used as stated/intended to stimulate the domestic U. S. economy. [As an aside, serious consideration should be given to imposing some sort of punitive “interest equalization” tax on international carry trade profits to discourage this very harmful and dangerous activity (to both the lenders and recipients), which has frequently undone 50 or 60 years of expensive and intensive U.S. diplomatic efforts to improve/maintain regional stability.]

As action item, it is suggested expanded usury laws be enacted to establish \*MINIMUM\* as well as maximum interest rates for various classes of loans. While minimum interest rates will avoid mis or mal allocation of capital (assuming the carry trade can be controlled), maximum interest rates will limit asset bubble creation/expansion, and as these phase in, will act to stabilize an overheating economy or general inflation by a phased reduction in demand. The stick for enforcement is that loans outside these guidelines cannot be enforced in court, nor are these admissible claims in bankruptcy actions. Some starting points for discussion:

(interest rates are APR)

1.1	Residential mortgages	min 3.5%	max 9.0%
1.2	New vehicle loans	min 5%	max 12%
1.3	Used vehicle loans	min 8%	max 15%
1.4	Credit card balance	min 3%	max 18%
1.5	Signature [unsecured] loans	min 6%	max 24%
1.6	Unsecured corporate loans	min 6%	max 16%
1.7	Secured corporate loans	min 4%	max 10%
1.8	LBO/margin loans	min 8%	max 24%

1.9 Student loans min 4 % max 8.0%

2 While blanket limits/restrictions on real estate loans should be avoided, it is entirely reasonable to require that all real estate mortgages included in CDOs, traded interstate or internationally, or purchased directly by a entity of, or backed by, the federal government must:

2.1 Use only the [one] standard residential mortgage contract form specified by governmental agencies purchasing the mortgages or CDOs. This is specifically intended to eliminate the abuse of “special” terms, conditions, and limitations, concealed from buyers by legalese, such as the “waiver of rights” or prepayment penalties. This will also have the benefit of reducing court time for the parsing and adjudication of every word, as legal precedents will be quickly established for the “standard” mortgage contract. Significant cost savings for form printing can also be realized by the creation of a PDF [Adobe] format document which can be download from a governmental website, that allows the insertion of the mortgage data such as name, location, amount, payments, etc., but does not allow modification of the form. Not only can the completed forms be printed as needed, the data can be easily incorporated into computer databases without the need to rekey the information, resulting in additional cost savings. Electronic copies of the document can also be easily filed, as can scanned copies of the completed document with signatures and dates.

2.2 Be for a fixed period of time

2.3 Have a fixed interest rate [no “teaser” or variable interest rates]

2.4 Have equal payments, exclusive of “escrow,” over the life of the loan [no balloon notes] with principal amortization [no interest only or negative amortization loans]

2.5 The borrower meets \*MINIMUM\* underwriting standards at the time the loan is made including but not limited to:

2.5.1 Mortgage does not exceed 2.5 times the combined verified annual income(s) of the borrower(s) at the time of the loan, with verified employment of at least 6 months with their current employer(s).

2.5.2 A credit rating at least above the 3rd decile (30%), e.g. 70% of the population passes. [ <http://www.investopedia.com/terms/d/decile.asp> ]

2.5.3 Verified U.S. citizenship or legal residency

2.5.4 Other outstanding loans such as vehicle, credit card, and student loans, or judgments, do not total more than 1.5 times the annual income(s) of the borrower(s). [A very high total debt limit of 4 times annual income.]

2.5.5 Have the mortgage/lien registered with the county “Recorder of Deeds,” with the lender listed as the owner of the mortgage, where the property is physically located, and clear title, other than the registered mortgages is established. This is specifically intended to eliminate the “mystery mortgage holder” problem, and to force the payment of fees for recording the mortgage(s) (and the new owners), to the county, which are currently being evaded by MERS [Mortgage Electronic Registration System]

[http://en.wikipedia.org/wiki/Mortgage\\_Electronic\\_Registration\\_Systems](http://en.wikipedia.org/wiki/Mortgage_Electronic_Registration_Systems)

- 3 Enact legislation stipulating the only entity that has the right to initiate a foreclosure action in a U.S. state or federal court, is an entity registered as a lien holder on the property in question with the county “Registrar or Recorder of Deeds,” in which the property is located, and the original loan agreement or certified copy or scan of the signed agreement, must be submitted to the court when the foreclosure is initiated. ***No signed mortgage contract and/or no recorded property lien (in the name of the entity attempting to foreclose) means no standing to initiate a foreclosure action.***